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LENA PARK STUDY - FINANCIAL ANALYSIS

Dorchester
L563
1970

Lena Park Study - Financial Analysis

August 21, 1970

Boston Redevelopment Authority

Planning Department

DORCHESTER District Planning Program



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INTRODUCTION

The Lena Park Housing Development Corporation has undertaken a development project on the Lena Park site in Dorchester. The proposal includes:

1. Construction of a 14-story tower containing 100 units, which has already begun with Federal assistance under Section 221d(3);
2. Purchase of the YMHA Hecht House and use of the building as a neighborhood center - a project for which the City of Boston, on behalf of the Corporation, applied for and recently a HUD 703 Neighborhood Facilities Grant;
3. Residential development of the remainder of the Lena Park site.

This report will examine the economic feasibility of Stage 3, the Corporation's residential development of the remainder of the site. The Corporation's current thinking calls for 200-225 units of housing, aimed at existing rental demand by both elderly and large families with low and moderate incomes. The following housing mix has been generated, solely for purposes of this analysis, as consistent with the Corporation's intentions:

40 efficiency	@ 700 sq. ft.	28,000 sq. ft.
40 1 BR	@ 900 sq. ft.	36,000 sq. ft.
20 2 BR	@ 1100 sq. ft.	22,000 sq. ft.
75 3 BR	@ 1225 sq. ft.	92,000 sq. ft.

<u>45</u> 4 BR	@ 1350 sq. ft.	<u>61,000 sq. ft.</u>
220 units	Apartment Area	239,000 sq. ft.
	Plus 10% Common Area	<u>24,000 sq. ft.</u>
	Total Area	263,000 sq. ft.

This report will consider the Lena Park Housing Development Corporation as a 121A Urban Redevelopment Corporation for purposes of tax abatement and land acquisition. Further rent reductions will be considered through the use of Section 236 Interest Reduction Payments, which can be used for either a rental or cooperative project. Finally, the developer will be considered as both a non-profit and a limited dividend corporation, in order to examine the different effects on housing rents.

ANALYSIS AND FINDINGS

The Lena Park Housing, Development Corporation faces the task of land acquisition as the first step towards further residential development of the Lena Park site. After the Hacht House sale, combined Jewish Philanthropies still own over three acres of the site, and there are approximately 35 small parcels, with over 20 owners, along Lorne Street. Voluntary assembly by sale, pooling, or leasing owners unlikely under these circumstances; declaring the corporation or Urban Redevelopment Corporation under Chapter 121A will expedite assembly and also help to guarantee a favorable tax rate.

The Lena Park Housing Development Corporation proposes to use the site for low and moderate-income housing. This report considers the effect on rents of Section 236 interest reduction payments by the Federal government -- the most effective rent-reducing program which is currently funded. At a total cost of less than \$27,000 per unit, the proposed housing qualifies for Section 236 funding (See Appendix, Section 1.A):

Under non-profit sponsorship, rents must cover debt service and operating expenses; the FHA also requires a replacement reserve for the project. Given these requirements, a non-profit sponsor would set monthly rents from \$215 for an efficiency to \$415 for a 4-bedroom apartment (See Appendix, Section 2.A). However, with Section 236 interest reduction payments to the mortgages. The mortgage-sponsor can change minimum monthly rents ranging from \$115 for an efficiency to \$225 for a four-bedroom.

The FHA permits a 6% after-tax return on Equity for limited dividend corporations. Changing only slightly higher monthly rents, \$122 for an efficiency to \$235 for a four-bedroom, a limited-dividend corporation earns a 5.5% return by FHA calculations. However, due to the Federal tax laws, the

actual annual after-tax cash return of the project would be 19-21% of Equity (See Appendix, Section Three).

In conclusion, housing units on the Lena Park site, under either a non-profit or limited dividend sponsor could adequately serve the needs of \$5,500-\$10,000 income families, depending upon unit size. For instance, a family with annual income of \$8,500 would spend 25% of income on this study's projected 2-bedroom apartment, with monthly rent of \$180. The sponsor can make arrangements with the BHA under either leasing as rent supplement programs to provide a portion of the units at even lower rents, for households which qualify for public housing.

APPENDIX

Section One - Cost Estimates and Assumptions

a. Capital Costs

Land Acquisition		\$ 455,000
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Site Preparation (1)	\$ 230,000	
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Construction Cost (2)	4,603,000	
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Architect's Fees (3)	230,000	
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Building Permits (4)	14,000	
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Legal Fees (5)	72,000	
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Interest on Construction Loan (6)	258,000	
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Total Improvement Cost		\$5,407,000
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Total Project Cost		\$5,862,000
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b. Annual Operating Expenses (7)		\$ 197,000/year
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SECTION TWO -- RENTS UNDER NON-PROFIT PROFIT

A. "Market" Rents

Assumptions

- $8\frac{1}{2}\%$, 40-year mortgage for 100% of investment
- Property Tax Payment at 15% of Revenue
- Project Cost of \$5,862,000
- 0.5% Annual Depreciation required by HUD as replacement reserve.

Estimates

-- Operating Expenses	\$197,000
-- Depreciation	29,000
-- Debt Services	520,000
-- Monthly Rent Schedule	
Efficiency	\$ 215
1 BR	\$ 280
2 BR	\$ 335
3 BR	\$ 375
4 BR	\$ 415

B. Rents with Section 236 Interest Reduction Payments

Assumptions

- 1%, 40-year mortgage for 100% of investment
- Property Tax Payment of 15% of Revenue
- Project Cost of \$5,862,000
- 0.5% Annual Depreciation

Estimates

-- Operating Expenses	\$197,000
-- Depreciation	\$ 29,000
-- Debt Service	\$176,000

-- Monthly Rent Schedule

Efficiency	\$115
1 BR	\$150
2 BR	\$180
3 BR	\$200
4 BR	\$225

SECTION THREE -- RENT, INCOME, AND CASH FLOW

Estimates Under Limited Dividend Sponsor

Illustrative Example:

Estimates with Section 236 Interest Reduction Payments

Assumptions

-- Project Cost	\$5,482,000
-- Operating Cost	\$ 197,000
-- 1%, 40-year mortgage for 90% of investment	
-- Payment of 15% of Revenue in lieu of City Property Tax	
-- 2½% Annual Depreciation, taken at 200%	
-- Rent Schedule derived in Section Two (B), reduced by 25%	
Efficiency	\$122
1 BR	\$158
2 BR	\$190
3 BR	\$215
4 BR	\$235

Estimates

YEAR 1

Gross Income	\$498,000
Operating Expenses and Property Tax Payment:	\$272,000
Debt Service	\$158,000
-- Interest Payment	52,000
-- Mortgage Amortization	106,000
Depreciation	270,000
Taxable Income	- 95,000
After Tax Cash	150,000
After Tax Cash as Percentage of Equity	21%

YEAR 15

Gross Income:	\$498,000
Operating Expenses and Property Tax Payment:	272,000
Debt Service:	138,000
-- Interest Payment:	36,000
-- Mortgage Amortization:	122,000
Depreciation:	270,000
Taxable Income:	- 79,000
After Tax Cash:	108,000
After Tax Cash as Percentage of Equity:	19.5%

FHA Calculations

Gross Income:	\$498,000
Property Tax Payment:	- 75,000
Operating Expenses:	-197,000
Depreciation (0.5%):	- 29,000
Debt Service:	<u>-138,000</u>
Before Tax Profit:	59,000
Federal Tax:	<u>- 28,000</u>
After Tax Profit:	31,000
Return on Equity:	5.2%

NOTES

(1) Itemized Site Preparation

--Relocation	\$ 50,000
--Demolition	90,000
(31 triple deckers @ 64,100 cubic feet/building @ 4.5 cents/cubic foot = \$90,000)	
--Utilities	90,000
--Storm and Sanitary Sewer	\$20,000
--Water	20,000
--Roads	50,000
--Total Site Preparation	<u>\$ 230,000</u>

- (2) Total Building Area = 263,000 square feet
@ \$17,500/sq. ft. \$4,603,000
- (3) Architect's fees are calculated at 5% of construction cost.
- (4) Cost of building permits is calculated at \$5 per \$1,000 for first \$1,000,000 cost; and \$2.50 per \$1,000 for next \$4,000,000 cost
- (5) Legal Fees are calculated at 1.5% of project cost.
- (6) Interest is estimated at 5% of project cost.
- (7) Annual operating expenses are estimated at \$0.75/square foot.
263,000 sq. ft. @ \$0.75/sq. ft. = \$197,000.

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